
STATE OF INDIANA

DISTRESSED UNIT APPEAL BOARD



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Distressed Unit Appeal Board Meeting Memorandum

February 16, 2018

Call to Order: A meeting of the Distressed Unit Appeals Board (DUAB or Board) was held on February 16, 2018, at 9:30 a.m. EST at the Indiana Government Center South building, Conference Rooms 4 and 5, Indianapolis, Indiana. Members of the Board attending the meeting in-person included Micah Vincent, Chairman, Kent Hatcher, Paul Joyce, Wes Bennett, Rebecca Kubacki, and Representative Cherrish Pryor. Representative Milo Smith and Senator Eric Bassler attended by phone. Courtney Schaafsma, Executive Director, was also in attendance.

Chairman Vincent called the meeting to order and recognized compliance with the Open Door Law. Chairman Vincent welcomed Representative Pryor to the Board. He then presented the meeting minutes from the December 13, 2017 meeting for approval. Mr. Joyce moved to approve the minutes, and Ms. Kubacki seconded. The Board voted 5-0 to approve the minutes.

Ms. Schaafsma presented the Executive Director's Report, providing updates since December 13, 2017. For Gary Community School Corporation ("GCSC"), Ms. Schaafsma highlighted the community forums that had occurred in January and also congratulated Mr. Leonard Moody, GCSC Chief Financial Officer ("CFO"), for helping to restore direct deposit for employees. For Muncie Community Schools ("MCS"), Ms. Schaafsma noted that the emergency management team had assumed its new role as of January 1, 2018, and had been working with various stakeholders through Muncie. She also noted that the MCS CFO had resigned effective February 1. She also indicated that the sale of three vacant buildings had been placed on hold. Ms. Kubacki asked if the community forums for GCSC had been well attended. Ms. Schaafsma indicated that the emergency manager would provide more information on this during her presentation but that the forums had been attended by 60-80 people each.

Mr. Eric Parish, finance lead with the emergency management team for GCSC, presented a summary of the current financial status for GCSC. He highlighted that the annual deficit figure had been refined from \$22 million in August 2017 to \$18 million as of January 2018, due to better management and accounting. He also highlighted that GCSC had not requested a loan from the Common School Fund for the months of December 2017 through February 2018. Mr. Parish then discussed the implementation of an internal budget, which will allow GCSC to compare budgeted expenses to actual expenses on a monthly basis. He also stated that GCSC is current on its payments to NIPSCO, CIGNA, the transportation provider and the custodial services provider. GCSC adopted and implemented an internal controls and procedures manual in December 2017. From a staffing perspective, Mr. Parish explained that a CFO had been hired as of December 2017 and a new payroll coordinator was hired in January 2018. Lastly, he mentioned the submission of the review of processes and systems at the end of 2017.

Mr. Parish then explained that the cash flow analysis provided to support the loan request is conservative in nature. He indicated that its purpose is to manage the cash of GCSC and reflects General Fund revenue but total expenditures. Federal funds are not predictable, so they are not included on the cash flow. Based on his analysis, Mr. Parish anticipate GCSC needing Common School Fund loans into 2019.

On the Viable Deficit Reduction Plan (“Plan”), Mr. Parish explained that the objective of the plan was to eliminate the annual deficit of \$18 million and the estimated \$100 million in accumulated debt. The Plan documents 31 initiatives to generate revenue, reduce costs or both. He explained that the Plan does not provide for the elimination of the annual deficit in 2018 but would be expected to do so in 2019. Representative Pryor asked for examples of revenue enhancement. Mr. Parish highlighted certain initiatives in the Plan that would serve as revenue enhancement. Mr Parish noted that not every initiative will have outcomes as planned and the emergency management team would have flexibility to follow multiple pathways to get to fiscal solvency. He also noted that the Plan would be updated every six months to document progress, add new initiatives and remove initiatives that are no longer viable.

Chairman Vincent confirmed with Mr. Parish that the annual deficit would be eliminated in 2019 and asked when the debt would be paid down. Mr. Parish indicated that at the rate shown in the Plan, it would take thirty years to pay down the \$100 million debt. Representative Pryor asked for a breakdown of the \$100 million debt. Mr. Parish indicated that approximately \$40 million is for bonds, \$40 million in loans, \$8 million due to the IRS, \$6 million due to past due vendors, and the rest of short-term borrowing for operations.

Mr. Parish then discussed the implementation of internal controls. He indicated that the emergency management team had provided an internal controls manual and a business office procedures manual to DUAB by the end of December 2017. Staff had been trained on these manuals in December and are currently implementing the manuals. He highlighted the hiring of the CFO and his background in internal audit and internal controls, in addition to the additional opportunities for separation of duties. Mr. Joyce asked if the internal controls had been implemented at the school level. Mr. Parish indicated that the schools had minimal monetary responsibilities and that the team is working on extending internal controls to the school level. Ms. Schaafsma asked for the reaction from staff on this implementation. Mr. Parish indicated that staff had experienced some concern due to the nature of change but that they understood the need and were embracing the change. Ms. Kubacki asked about resistance to change, and Mr. Parish explained that the staff is being introduced to new requirements and is adapting. Mr. Vincent asked if any impacts had been seen yet with the implementation of internal controls. Mr. Parish explained that they have had the opportunity to look at tasks with new eyes and question the appropriate way in which to accomplish tasks. Mr. Joyce noted that extra-curricular accounts (“ECA”) are handled in a different manner but that they can have significant money running through these accounts. He asked if Mr. Moody was working with school treasurers to oversee the ECAs. Mr. Moody indicated that he does interact on a regular basis with the school treasurers and he regularly reviews the ECA fund activity and balances. Mr. Moody also noted that they had mapped out all of the findings from the most recent audit and were implementing changes to avoid such findings in the future. Mr. Bennett clarified the role of ECAs, and Mr. Parish noted that the central office plays a key role in the oversight of these funds. Mr. Bennett also asked if the internal controls were creating additional work or efficiencies. Mr. Parish noted that GCSC is technology-challenged and a lot of oversight was having to be done manually at this point in time. Representative Pryor asked about how

the emergency management team was working to minimize resistance to change moving forward. Mr. Parish noted that they were working to change the organizational culture to make the changes easier. Dr. Peggy Hinckley explained that many staff had limited training in Excel. She noted that it was important for the staff to have the proper training to be able to absorb new skill sets. Representative Pryor asked about the use of incentives to encourage buy-in to such changes. Dr. Hinckley noted that many people at GCSC had been open to the changes and knew they were needed. Mr. Moody also noted that people in the past had not always been managed, so having additional guidance was important. Mr. Joyce agreed and Mr. Bennett noted the opportunity for staff to expand their skill set.

Ms. Schaafsma then explained the process for a Common School Fund loan. She noted that it was DUAB's responsibility to approve the repayment schedule on the loan and recommended that the loan, if approved be provided a 10 year repayment schedule with repayment starting in July 2019. Mr. Moody explained that the loan request was for \$3,750,000 to allow for payroll expenses for March 16, 2018, March 30, 2018, and April 13, 2018. He indicated that the loan, if approved, would help GCSC get through April before needing another loan. Ms. Kubacki asked if there was a cap on the amount that DUAB can lend. Ms. Schaafsma explained that there is not a cap and that DUAB remains in contact with the Treasurer's Office in regard to the cash balance in the Common School Fund. Mr. Bennett asked about requests that may go out into 2019. Mr. Parish indicated that he could not project those loan requests at this time, as they would be contingent on the implementation of the Plan. Mr. Bennett also clarified that the loans are not necessarily documented in the Plan. Mr. Joyce asked about loans through the end of the school year. Mr Parish indicated they expected to need a loan in April 2018 and a small loan in June 2018, in a total \$5-6 million range. Ms. Schaafsma noted that the emergency manager team had not yet had the opportunity to make large-scale changes and the impact of such changes would not be felt until the fall of 2018. Dr. Hinckley agreed and indicated that they are looking for ways to make significant modifications to the monthly deficit. Mr. Joyce asked for a cash flow that documented anticipated expenses and loans moving forward.

Mr. Bennett made a motion to approve the loan request with the recommendations from Ms. Schaafsma on loan repayment. Ms. Kubacki seconded. The motion carried 5-0.

Dr. Hinckley explained that the emergency management team had been going through a process to solicit feedback on the idea of one high school for GCSC. These opportunities included two forums, including tours of the facilities followed by a presentation and public comment. She also indicated that they had gathered a Community Advisory Group made up of various community leaders and had met with other community associations. The Community Advisory Group then met to summarize feedback received. The emergency management team also met with various student groups at both the high school and middle school levels. Based on these discussions, Dr. Hinckley recommended that West Side Leadership Academy ("West Side") be the high school for GCSC for the 2018-2019 school year, meaning Wirt-Emerson Visual and Performing Arts High Ability Academy would be closed. She noted that the population of GCSC students favored the west side of Gary and the West Side facility was in suitable condition and had sufficient capacity to house the high school.

Dr. Hinckley also recommended closing the district offices at 1988 Polk Street and relocating these offices to West Side in dedicated administration offices. Lastly, Dr. Hinckley recommended a grade configuration for 2018-2019 that would include K-5, 6-8, and 9-12 schools. This would require the establishment of a middle school, which would allow for the reinstatement of additional opportunities

and activities for students. She mentioned that they were looking at opportunities to establish a STEM-based curriculum and to receive a grant from Boeing for a STEAM curriculum at the middle school. Dr. Hinckley explained that public comment would be taken at the GCSC School Board meeting on February 21 on these recommendations. Chairman Vincent noted that Ms. Schaafsma will attend this meeting to hear the feedback and report back to DUAB with the comments. Ms. Schaafsma also invited the public to submit comments directly to DUAB through email or mail. Chairman Vincent noted that acting on these recommendations is difficult but that it was necessary to act on these type of recommendations or DUAB may have to make other more difficult decisions in the future. He noted the financial and academic challenges facing GCSC also drove the necessity of these recommendations. Representative Pryor asked about the closing of the schools and how the facilities would be handled. Dr. Hinckley indicated that she meets regularly with the Mayor and that GCSC would work to properly decommission the facilities. Mr. Bennett thanked Dr. Hinckley for her work and commended the community of their involvement in this process.

Dr. Hinckley explained to the Board that GCSC is looking to partner with Ivy Tech to locate welding, building trades and cybersecurity to the Gary Area Career Center. She also explained that GCSC had saved significant money on utility bills as a result of repairing plumbing leaks.

New Business: No new business was presented.

Adjournment: Chairman Vincent adjourned the meeting at 11:20 a.m.